

COURSE INFORMATION

Course title:	Mergers & Acquisitions	Credits:	1.5
Course code:	BAFI 507	Class location:	ANGUS 335
Session, term, period:	2019W1, Period 6	Class times:	Mon/Wed 2 – 4pm
Section(s):	001	Pre-requisites:	BAFI 500, BAFI 502
Course duration:	Sept.3 to Oct. 12, 2019	Co-requisites:	n/a
Division:	Finance		
Program:	MBA		

INSTRUCTOR INFORMATION

Instructor:	Elena S. Pikulina, PhD	Office location:	ANGUS 864
Phone:	604-822-3314	Office hours:	Fri 1 – 2pm or by appointment
Email:	elena.pikulina@sauder.ubc.ca		

Teaching assistant:	Iris Wang
Office hours:	TBD
Email:	iris.wang@sauder.ubc.ca

COURSE DESCRIPTION

Mergers and acquisitions (M&As) can be critical to the success of corporations and their managers. Our study of change of control will include the economic motivations for M&A activity, advanced valuation, transaction structuring, creative financing, risk management, tactics for friendly M&A negotiations and hostile transactions, due diligence, and execution.

This course aims to:

- Provide a general understanding of M&A processes, their causes, including economic and agency motivations, and their consequences
- Familiarize students with valuation and transaction structuring techniques
- Illustrate tactics for friendly and hostile negotiations in M&A context
- Promote students' attention to due diligence, risk management, and execution as important causes of M&A failure and success

COURSE FORMAT

The course is balanced between lecture, cases, and student presentations. Active participation is essential. The course is useful for students pursuing careers in corporate finance, investment banking, commercial banking, and business consulting.

LEARNING OBJECTIVES

By the end of this course, students will be able to:

1. Identify main motives for transactions
2. Apply different valuation techniques in M&A settings and know their pros and cons
3. Recommend and justify a method of payment and financing packages for a deal
4. Use tactics for friendly negotiations and hostile transactions
5. Understand the role of legal environment and good corporate governance
6. Propose a plausible M&A transaction including motivation, valuation, structuring, and integration.

ASSESSMENTS

Summary

<u>Component</u>	<u>Weight</u>
Cases (by group)	30%
Pitch book (by group): write-up + in-class presentation	15% + 15%
Short paper	30%
Participation: by instructor + by peers	<u>5% + 5%</u>
 Total	 <u>100%</u>

Details of Assessments

I. Cases

Cases bring realistic and contextually rich situations into the classroom and allow students to appreciate the beauty and complexity of M&A processes. They provide a detailed background to identify key features of all M&As and crucial details of a particular deal. They help in developing a structured approach to M&A and getting into the habit of creating a full picture of a deal via filling in information gaps (via inside and outside research).

There are four cases in the course and students will work on cases in groups of 3-5 students. I will lead the first case discussion (Buck). For the other three cases (Microsoft, Hertz and Roche) the students will write a memorandum and submit electronically (each group submits one memo on canvas.ubc.ca) before the class when the case is discussed.

Memo: A case memo should be 3 pages of text maximum, 1.5 spacing, 12pt and 1-inch margins (roughly), plus any necessary appendices. All groups will write a memo for all three cases. A few tips on writing a good memo:

- Focus on the question at hand; don't just repeat the facts listed in the case.
- Make sure your arguments, figures, and tables directly address the issue.
- Focus on impact and interest, not quantity. A memo is not an essay, so tables and bullet points are welcome.
- Make sure that all your attachments are really necessary and add value; eliminate those that do not clearly make the cut.

Class discussion: In class, the case discussions will start with a Power Point presentation by the lead group(s), followed by open/structured discussion. Groups have to decide beforehand what case they want to discuss and enter their decision on canvas.ubc.ca). If there is more than one group working on a case then a variety of styles for coordinating the presentations are possible:

1. Leader / Follower: One group leads off the presentation (20 minutes) while the second group focuses on follow up and response. The first group can focus on presenting their analysis, while the second group can analyze which points are shared in common and which there is disagreement on, which should present opportunities for class discussion. Please note that this setup is not intended to be adversarial, and the focus should be primarily on illuminating the relevant issues, rather than devolving into an argument over who is right. This requires tact in putting forward one's own view while allowing thoughtful consideration of other perspectives.

2. Symmetric / joint presentation: The two groups essentially choose to merge their presentations, while still making an effort to point out where they share common ground and where the analysis in their memorandum differed.
3. Role play: The two groups decide to take on different roles (e.g., target vs. acquirer) in order to more effectively present the case to the class.

All the cases can be purchased from the Harvard Business Publishing online via course pack at: <https://hbsp.harvard.edu/coursepacks/649077>. Please register with the Harvard Business Publishing before purchase.

II. M&A Pitch Book

The final project for the course is to develop a pitch book for a proposed M&A transaction, where the students take the point of view of an M&A advisor for either a potential buyer or seller. Your client has to be a publicly traded company with sufficient data available to make informed recommendations. Each group pitch book should be 5 pages of text maximum, 1.5 spacing, 12pt and 1-inch margins (roughly), plus any necessary appendices. The pitch book is due electronically (each group submits one pitch book on canvas.ubc.ca) on Sunday, October 6, 2019, by midnight.

Outline format for a potential buyer (seller):

1. The strategic situation of your client (buyer/seller), and why an acquisition is a plausible way to increase shareholder value.
2. Why the proposed target or buyer makes sense in light of the above; specific ways in which its acquisition would make strategic sense to your client; what is the essence of the opportunity for your client? Is it a market of target-specific opportunity? To what extent this opportunity would be unique to this transaction?
3. Why the target might be available? E.g., large block of stock in the hands of someone who might want to sell, an aging founder of a private firm with no apparent successor, etc.
4. A list of other potential acquirers and/or targets, and why this particular deal dominates other potential combinations (for example, an investment bank looking for an acquirer for a specific seller often will start with all potential candidates, and break these down into A list, B list, and C list buyers.)
5. Preliminary valuation of the target as a stand-alone entity, plus an assessment of possible synergies. As much as possible, try to create a tight link between the quantitative assessment of synergies here and the economic logic of the transaction explained earlier.
6. Explain key due-diligence issues that will need to be answered before a final agreement on value is reached. Pending/potential law suits? Any environmental concerns? Clash of cultures? Etc.
7. Propose how to approach the target/acquirer and propose a structure of the offer, e.g., a friendly meeting to discuss a merger or a formal tender offer, an all cash offer or stock-swap or some combination, etc. You should include both an initial offer and an upper bound for what your client should be prepared to pay.
8. Potential legal-regulatory-antitrust hurdles that need to be considered.
9. Principal issues in a successful integration of the target/buyer with your client's operations.

The above suggestions are not required but they are just ideas to get you started. Use your judgement and creativity to address the specific issues of a specific deal.

If you choose a target as a client (in that case you are looking for a buyer), you have to turn the exercise on its head a bit, but the principles are the same. Following the discussion above, one thing I like to see early on in this type of presentation is a list of potential buyers, broken down into categories (A list – good candidates, B list – maybe, C list – unlikely), with short explanation. This is also a good exercise to go through if your client is a buyer. For a merger of equals, you could choose your client to be either of the two parties and focus on that point of view.

During the exam week, students will make their group presentations of the pitch book. These should be about 15 minutes in length. Evaluation will be based upon both the oral and written components of the pitch book presentation: written part is 15% and the presentation is 15%.

III. Short Paper

In the short paper (three pages of text maximum), you are expected to analyze supplemental course readings and/or other independent study you have engaged in outside of class. The supplemental reading list is at the end of this syllabus, and you are also invited to add other readings of interest that you find on your own. Analysis of recent events is most welcome. Once you identify a topic of, you should choose a reasonable set of readings to base your writing assignment on. The short paper is due electronically on canvas.ubc.ca on Sunday, October 13, 2019, by midnight.

High quality contributions should have an analytical focus. That is, rather than just summarize what you have read, you should try to relate it to ideas we have discussed in class, during lectures or cases; discuss how it reinforces or calls into question theoretical foundations; discuss how it reinforces or calls into question common practice; discuss how it relates to empirical facts, recent deals you have read about, etc. Please provide a list of references at the end of the writing assignment.

A good place to start on this would be to read a few of the supplementary readings, and for a topic that interests you do further research until you come up with 3-5 solid references around the topic. Think about how what you have learned relates to ideas we have talked about in class, and to current events, and bring these ideas into your paper. By reading the paper, I should get a sense of how you have extended your knowledge of a topic related to our class through your outside research, and I should see evidence that you are able to apply these ideas to events occurring in the real world.

IV. Participation

Evaluation by instructor (5%):

- Your questions and comments in class are very important. It really helps if I know your name -- please use name cards. I try to adjust for people's personalities. For those who are more reserved, I appreciate very much when you make an effort to express your thoughts. For those who are more outspoken, I am the most impressed when you can find ways to draw your classmates into a discussion.

Evaluation by peers (5%):

- At the end of the course, each of you should submit peer evaluation of their teammates. The purpose of evaluations is neither to praise nor criticize your group members but rather learn how to give constructive and fair feedback.

- High quality evaluations should both acknowledge individual's achievements and strong sides as well as point out issues to work on, skills to improve.
- To help you with peer evaluations, I will provide a short form on canvas.ubc.ca.

LEARNING MATERIALS

Required: All cases can be purchased from the Harvard Business Publishing online via course pack at: <https://hbsp.harvard.edu/coursepacks/649077>. Please register with the Harvard Business Publishing before online purchase.

Estimated cost of required materials: \$4.25 per case

Two useful books (recommended but not required) on M&A are:

- "Mergers, Acquisitions, & Corporate Restructurings" by P. A. Gaughan
- "Applied Mergers and Acquisitions" by R. F. Bruner

A good corporate finance textbook will be helpful but not necessary. For example,

- "Corporate Finance" by Berk, DeMarzo, and Stangeland, or "Fundamentals of Corporate Finance" by Brealey, Myers, and Allen
- "Corporate Finance" by Ross, Westerfield, Jaffe, and Roberts

Other useful books:

- "Mergers & Acquisitions: A Condensed Practitioner's Guide", S. M. Bragg
- "Mergers & Acquisitions from A to Z", A. J. Sherman
- "Valuation: Measuring and Managing the Value of Companies", T. Koller, M. Goedhart, D. Wessels

Other Learning Resources:

- Power point slides and other materials will be posted on the course website: <https://canvas.ubc.ca/>

Useful Links:

- Recent deals: reuters.com/finance/deals/mergers & reuters.com/finance/deals/
- WSJ deal blog: blogs.wsj.com/deals/
- HBR on M&As: hbr.org/topic/mergers-and-acquisitions
- Reports by practitioners:
 - <https://www.pwc.com/ca/en/services/deals/2019-outlook.html>
 - <https://www.jpmorgan.com/jpmpdf/1320746694177.pdf>
 - <https://www2.deloitte.com/us/en/pages/mergers-and-acquisitions/articles/ma-trends-report.html>
 - Etc.

COURSE SCHEDULE

(Subject to change with class consultation)

Class	Date	Topic	Readings or Activities	Assessments due
Week 1	Sept. 2 – 8	Course Outline and Objectives M&As in Perspective & Theoretical Frameworks	Monday: Intro lecture by the instructor Wednesday: Several small case discussions No readings required	
Week 2	Sept. 9 – 15	Valuation: DCF Valuation: Multiples Selling a private company	Monday: Lecture Discounted cash flow method (DCF) Wednesday 1st half: Multiples valuation method Wednesday 2nd half: Case discussion lead by the instructor “Buck”	To prepare, read the Buck case and answer the following questions: 1. First of all, let’s understand the environment because no deal is done in vacuum. Understanding the business environment is the crucial to answering all the other questions. Note: We’ll start analysis of all our cases with this question and its sub-questions. Try to make your answers here as <u>forward-looking</u> as possible. For example, if you mention any recent trends or changes, try to assess whether these trends will continue in the future and what these changes will mean for companies in question. Also, <u>be brief but very specific</u> . a. Who and why? – Who are buyers/sellers? Why are they interested in buying/selling a company? b. What? – What is the essence of the opportunity from the buyer’s perspective? Industry vs. company opportunity? What are the alternatives, if this opportunity is missed? c. Where and when? – What are the relevant market/industry conditions? E.g. economic boom vs. recession. What are the relevant country conditions? E.g. regulations, political risks. 2. As a seller, what risks should Cynthia Buck (the seller) consider when selling her business? 3. As a potential buyer, what risks should you consider? Here, think of common risks for a similar transaction as well as deal-specific

				<p>risks. How could you mitigate those risks?</p> <p>4. What's the value of Buck's equity? Equity value is defined as the value of the entire business value minus the value of debt.</p> <ol style="list-style-type: none"> Using DCF valuation method Using multiples valuation method <p>5. As a buyer what price would you be willing to pay? As a seller what price would you be willing to accept? Why those could be different? How those differences affect the chances of deal closure?</p>
Week 3	Sept. 16 -22	Transaction structuring Leveraged Buyouts	<p>Monday: Lecture by the instructor on transaction structuring</p> <p>Wednesday 1st half: Case presentation & discussion lead by the students "Microsoft vs. Yahoo"</p> <p>Wednesday 2nd half: Lecture by the instructor on leveraged buyouts</p>	<p>Questions for the Microsoft case: <u>Due on Sept. 18 before class</u></p> <ol style="list-style-type: none"> Who and why? What? Where and when? For more details on this question, see question #1 for the Buck case. What is the value of Yahoo as a stand along company, the day before the offer, based on information available on January 31, 2008? What is the value of Yahoo as a division under Microsoft, based on information available on January 31, 2008? Based on your valuation in #3, can Microsoft's \$31 per share offer be justified on the valuation basis? What could be other reasons for the offer? Why did the CEO of Yahoo reject a 70% premium? Yahoo's stock price dropped to \$14 in 2011. Did the market overreact to the fallout of the Microsoft deal? <i>Hint.</i> Use cash flows realized between 2008 and 2011 to value Yahoo as a stand along company again. How much money did Yang personally lose/gain by resisting Microsoft's offer? Why?
Week 4	Sept. 23 - 29	Legal framework and corporate governance	<p>Monday & Wednesday 1st half: Lecture by the instructor on legal framework and corporate governance</p>	<p>Questions for the Hertz case: <u>Due on Sept. 25 before class</u></p> <ol style="list-style-type: none"> Who and why? What? Where and when? For more details on this

			<p>Wednesday 2nd half: Case presentation & discussion lead by the students "Bidding for Hertz"</p>	<p>question, see question #1 for the Buck case.</p> <ol style="list-style-type: none"> How does the dual-track process used by Ford affect the bidding process for Hertz? In what ways does Hertz conform or not conform to the definition of an "ideal LBO target"? Is Hertz an appropriate buyout target? What is the value of Hertz using the Multiples method of valuation? What is the value of Hertz using the Free Cash Flow to Capital and APV methods of valuation? If Carlyle desires a 20% target return on its equity investment, does your analysis suggest that \$2.3 billion is too much to pay, or can it afford to pay more—in either case, by how much? Assume no interim cash flows and exit in 5 years after purchase. What is the market-required rate of return for this investment? Why might this differ from the sponsors' target return?
<p>Week 5</p>	<p>Sept. 30 – Oct. 6</p>	<p>Hostile takeovers</p>	<p>Monday & Wednesday 1st half: Lecture by the instructor on hostile takeovers, tactics and defenses</p> <p>Wednesday 2nd half: Case presentation & discussion lead by the students "Roche vs. Genentech"</p>	<p>Questions for the Roche vs. Genentech case: <u>Due on Oct. 2 before class</u></p> <ol style="list-style-type: none"> Who and why? What? Where and when? For more details on this question, see question #1 for the Buck case. As a majority shareholder of Genentech, what responsibilities does Roche have to the minority shareholders? As of June 2008, what is the value of the synergies (per share) Roche anticipates from a merger with Genentech? To simplify the analysis, use 9% WACC in your calculations. Based on DCF valuation techniques, what range of values is reasonable for Genentech as a stand-alone company in June 2008? Exclude synergies from your valuation and use a 9% WACC. Assume that as of the end of June 2008, Genentech held approximately \$7 bln in cash,

				<p>including investments and securities that were not needed in its daily operations. <i>Hint: Ex. 10</i> is a good starting point for this analysis.</p> <p>5. What does the analysis of comparable companies (Ex. 12, 13, and 14) indicate about Genentech's value within the range established in the previous question?</p> <p>6. What changes in Genentech's valuation assumptions occurred between June 2008 and January 2009? What changes were due to the financial crisis?</p> <p>7. Should Franz Humer launch a tender offer for Genentech's shares? What are the risks? If yes, what price should he offer?</p>
Week 6	Oct. 7 -13	Pitch book presentations Deadline for short paper		<p><u>Pitch book due on Oct. 6</u> <u>Short paper due on Oct. 13</u> <u>Peer evaluation due on Oct. 13</u></p>

COURSE-SPECIFIC POLICIES AND RESOURCES

Missed or late assignments, and regrading of assessments

Late submissions will not be accepted and will receive a grade of zero.

Academic Concessions

If extenuating circumstances arise, please contact the RHL Graduate School program office as early as reasonably possible, and submit an [Academic Concession Request & Declaration Form](#) <https://webforms.sauder.ubc.ca/academic-concession-rhlee>. If an academic concession is granted during the course, the student will be provided options by RHL, or by the instructor in consultation with RHL, per [UBC's policy on Academic Concession](#).

POLICIES APPLICABLE TO COURSES IN THE ROBERT H. LEE GRADUATE SCHOOL

Attendance

Excepting extenuating circumstances, students are expected to attend 100% of their scheduled class hours. Absent students limit their own academic potential, and that of their classmates, and cause unnecessary disruption to the learning environment. Students missing more than 20% of the total scheduled class hours for a course (including classes held during the add/drop period) without having received an academic concession will be withdrawn from that course. Withdrawals, depending on timing, could result in a "W" or an "F" standing on the transcript.

Punctuality

Students are expected to arrive for classes and activities on time and fully prepared to engage. Late arrivals may be refused entry at the discretion of the instructor or activity lead. Students arriving later than halfway through a scheduled class will be treated as absent for that class.

Electronic Devices

Devices such as laptops, tablets, and cell phones are not permitted to be used in class unless directed by the instructor for in-class activities. Students who do not follow the School's policy in this regard may be required to leave the room for the remainder of the class, so that they do not distract others. Research shows that students' use of laptops in class has negative implications for the learning environment, including reducing their own grades and the grades of those sitting around them.

Citation Style

Please use the American Psychological Association (APA) reference style to cite your sources.

Details of the above policies and other RHL Policies are available at:

<http://www.calendar.ubc.ca/vancouver/index.cfm?tree=12,199,506,1625>

UNIVERSITY POLICIES AND RESOURCES

UBC provides resources to support student learning and to maintain healthy lifestyles but recognizes that sometimes crises arise and so there are additional resources to access including those for survivors of sexual violence. UBC values respect for the person and ideas of all members of the academic community. Harassment and discrimination are not tolerated nor is suppression of academic freedom. UBC provides appropriate accommodation for students with disabilities and for religious observances. UBC values academic honesty and students are expected to acknowledge the ideas generated by others and to uphold the highest academic standards in all of their actions. Details of the policies and how to access support are available on the UBC Senate website at <https://senate.ubc.ca/policies-resources-support-student-success>.

Academic Integrity

The academic enterprise is founded on honesty, civility, and integrity. As members of this enterprise, all students are expected to know, understand, and follow the codes of conduct regarding academic integrity. At the most basic level, this means submitting only original work done by you and acknowledging all sources of information or ideas and attributing them to others as required. This also means you should not cheat, copy, or mislead others about what is your work. Violations of academic integrity (i.e., misconduct) lead to the breakdown of the academic enterprise, and therefore serious consequences arise and harsh sanctions are imposed. For example, incidences of plagiarism or cheating may result in a mark of zero on the assignment or exam and more serious consequences may apply if the matter is referred to the President's Advisory Committee on Student Discipline. Careful records are kept in order to monitor and prevent recurrences.

COPYRIGHT

All materials of this course (course handouts, lecture slides, assessments, course readings, etc.) are the intellectual property of the instructor or licensed to be used in this course by the copyright owner. Redistribution of these materials by any means without permission of the copyright holder(s) constitutes a breach of copyright and may lead to academic discipline. Audio or video recording of classes are not permitted without the prior approval of the Instructor.

ACKNOWLEDGEMENT

UBC's Point Grey Campus is located on the traditional, ancestral, and unceded territory of the xwməθkwəyəm (Musqueam) people, who for millennia have passed on their culture, history, and traditions from one generation to the next on this site.